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SUBJECT: WORLD BANK OFFICIAL ON UZBEKISTAN'S ECONOMIC BOOM,
POVERTY, AND ENVIRONMENT

REF: TASHKENT 1284

Classified By: POLOFF STEVEN PROHASKA FOR REASONS 1.4 (B, D)

¶11. (U) Summary: During Ambassador's meeting with World Bank Regional Director Loup Brefort on November 14, Brefort said Uzbekistan's economic growth stems mainly from rising prices of raw materials, exports of capital goods, and remittances from abroad. This has done little to reduce the 26 percent poverty rate, however. The World Bank is focusing on programs that directly benefit the people of Uzbekistan. Brefort believes Uzbekistan could use its sizable reserves to cushion the impact from economic problems, but it has yet to do so, even though inflation will reach at least 40 percent this year. While Uzbekistan has a relatively closed economy, its growth depends on the economic strength of its main trading partners, Russia and Kazakhstan. End summary.

UZBEKISTAN'S BANKING SECTOR BEHIND THE CURVE

¶12. (C) Ambassador paid a courtesy call on World Bank Regional Director Loup Brefort on November 14. Starting with an overview of the banking sector in Uzbekistan, Brefort said this sector is dominated by large, state-controlled banks; very few publicly-owned foreign banks operate in Uzbekistan. This sector has lagged behind those of other countries because banks in Uzbekistan are required by law to function as an arm of the tax authorities. The GOU is open in principle to removing these functions from the banks, but Brefort opined that this would probably take a few years. Uzbekistan is not open to private foreign banks yet, he said.

ECONOMY IS "BOOMING"...

¶13. (C) Despite certain doubts about the validity of Uzbek economic data, Brefort stated that Uzbekistan's economy has certainly boomed over the past four years. Official claims of over seven percent economic growth in 2005-2006 are credible, and this year's economic growth will be perhaps nine percent, he predicted. (Note: Brefort seemed more bullish in his analysis of Uzbekistan's economy compared to his meeting with DCM in June, reftel. End note.) This export-driven growth stems from three factors:

- The Extractive Industry: Dramatic increases in prices for certain raw materials have resulted in tremendous profits for a few state-owned Uzbek firms. The price for exported natural gas to Russia, for instance, has shot up from USD 15 to USD 100 for every thousand cubic meters. (Note: The USD 15 figure is from prior to 2002. End note.) Prices for gold and copper also have "skyrocketed."

- Exports of Capital-Intensive Goods: Uzbekistan has increased exports of capital-intensive goods like cement, cables, and electrical equipment in response to growing demand--particularly from Russia and Kazakhstan. These exports have not led to a corresponding increase in employment, however.

- Increases in Remittances: The value of remittances from Uzbeks working abroad almost doubled from USD 670 million in 2005 to roughly USD 1.2 billion in 2006, he noted. (Note: This statistic is for remittances from Russia. End note.) This is a short-term benefit for Uzbekistan, he said. Uzbek families use this money to buy consumer goods and invest in construction.

... BUT LITTLE IMPACT ON POVERTY REDUCTION

¶ 14. (C) Brefort stated that about 80 percent of Uzbekistan's economic growth has been built on the extractive industry and the export of capital goods. Because this growth is not labor-intensive, it has brought about little poverty reduction. In his opinion, structural economic changes and improvements in the business environment are necessary to alleviate poverty. (Note: 26 percent of the population lives

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in poverty, according to the GOU and World Bank. End note.)

WORLD BANK GOALS FOR UZBEKISTAN

¶ 15. (C) The World Bank is interested in continuing a dialogue with the GOU and finding opportunities to cooperate, he said. It plans to continue its non-lending activities to Uzbekistan--indeed, Brefort (protect) is interested in moving beyond the "interim" planning approval currently used by the World Bank when dealing with Uzbekistan, but this will be a high-level decision taken by the Bank's leadership in Spring 2008. For the next two to three years, the World Bank is not planning to engage in activity that directly benefits the GOU, however. Instead, it is focusing its efforts on programs that directly benefit the people. These include improvements in Uzbekistan's irrigation system to increase agricultural yields, public health programs to better equip Uzbek hospitals and train hospital workers, and sanitation programs.

ENVIRONMENTAL ISSUES IN UZBEKISTAN

¶ 16. (C) The World Bank has done a great deal of work and analysis on water, Brefort continued, though it has not had much luck in coordinating the efforts of the Central Asian countries involved. He said Uzbekistan's leadership is very anxious about Tajikistan's plans for a hydro dam, but opined that the dam would have only a modest impact on Uzbekistan. Brefort is concerned that lack of water could become a very serious problem twenty or thirty years down the road. In his opinion, the GOU has actively pursued a reduction in the level of its harmful emissions, however. Uzbekistan is attempting to take advantage of the carbon-credit system of financial incentives and foreign investment.

GROWTH IS FRAGILE

¶ 17. (C) Uzbekistan's export-led growth is linked to the

economic prosperity of its major trading partners, especially Russia and Kazakhstan. A slump in the economy of one of these would adversely affect Uzbekistan's growth rate, and Brefort predicted Kazakhstan's growth in 2009 will be half of what it is now. Uzbekistan has extensive reserves--Brefort estimated the reserves will exceed USD 2.5 billion by the end of 2008--to cushion against economic fluctuations.

COMMENT:

¶8. (C) The World Bank, like EBRD and ADB, remains frustrated by the challenges of doing business in Uzbekistan, but appears to have concluded that reform is more likely to be prompted by greater engagement than by trying to isolate the Uzbeks.

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